

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



MENDOCINO COUNTY FAIR AND APPLE SHOW
BOONVILLE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-057
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

MENDOCINO COUNTY FAIR AND APPLE SHOW
BOONVILLE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Alicia Lauron, CPA

Audit Chief
Assistant Audit Chief
Audit Manager

AUDIT REPORT NUMBER

#09-057

MENDOCINO COUNTY FAIR AND APPLE SHOW
BOONVILLE, CALIFORNIA

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report.....	1
Financial Statements.....	3
Notes to the Financial Statements	6
Report Distribution	12



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Wayne Hiatt, President
Board of Directors
Mendocino County Fair and Apple Show
P.O. Box 458
14400 Highway 128
Boonville, California 95415

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the Mendocino County Fair and Apple Show, Boonville, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the Mendocino County Fair and Apple Show's management. Our responsibility is to express an opinion on these financial statements based on our audits.

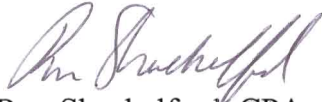
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mendocino County Fair and Apple Show, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Mendocino County Fair and Apple Show has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-057, on the Mendocino County Fair and Apple Show's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the Mendocino County Fair and Apple Show as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", with a stylized, flowing script.

Ron Shackelford, CPA
Chief, Audit Office

July 31, 2009

**MENDOCINO COUNTY FAIR AND APPLE SHOW
BOONEVILLE, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007**

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
ASSETS			
Cash and Cash Equivalents	111 - 117	\$ 543,722	\$ 260,268
Accounts Receivable, Net	131	2,167	75
Construction in Progress	190	842	-
Equipment, Net	193	2,210	4,420
Leasehold Improvements, Net	194	844,464	895,878
TOTAL ASSETS		<u>1,393,404</u>	<u>1,160,641</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	572	1,030
Deferred Income	228	183	21,889
Guaranteed Deposits	241	400	400
Compensated Absences Liability	245	12,598	15,053
Total Liabilities		<u>13,752</u>	<u>38,372</u>
Net Resources			
Net Resources - Operations	291	532,137	221,971
Net Resources - Capital Assets, Less Related Debt	291.1	847,516	900,298
Total Net Resources Available		<u>1,379,652</u>	<u>1,122,268</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 1,393,404</u>	<u>\$ 1,160,641</u>

**MENDOCINO COUNTY FAIR AND APPLE SHOW
BOONEVILLE, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
REVENUE			
State Apportionments	312	\$ 180,000	\$ 180,000
Project Fund	319	6,611	263,501
Other	340	56,889	40,000
Admissions	410	68,170	67,394
Commercial Space	415	14,200	12,750
Carnival	421	34,590	32,000
Food Concessions	422	29,934	28,324
Exhibits	430	6,937	6,094
Horse Show	440	323	900
Miscellaneous Fair	470	36,707	41,799
Miscellaneous Non-Fair	470.5	44,448	35,648
Non-Fair Revenue	480	313,079	64,714
Prior Year Revenue Adjustment	490	-	(24,817)
Other Revenue	495	4,810	5,108
Total Revenue		<u>796,698</u>	<u>753,415</u>
EXPENSES			
Administration	500	148,412	150,555.07
Maintenance and Operations	520	167,947	157,113.31
Publicity	540	12,524	8,026.21
Attendance	560	13,360	12,066.54
Miscellaneous Fair	570	30,936	23,080.27
Miscellaneous Non-Fair	570.5	12,099	9,135.57
Premiums	580	41,442	33,981.51
Exhibits	630	30,854	33,010.31
Judges Supplies	640	225	225.00
Attractions - Fairtime	660	18,775	19,650.00
Equipment	723	7,652	394.06
Prior Year Adjustments	800	(4,228)	29,263.04
Depreciation Expense	900	53,624	49,914.58
Capital Expenditures, Reimbursed	945	5,694	57,253.27
Total Expenses		<u>539,314</u>	<u>583,669</u>
RESOURCES			
Net Change - Income / (Loss)		257,384	169,746
Resources Available, January 1		1,122,268	952,522
Resources Available, December 31		<u><u>1,379,652</u></u>	<u><u>1,122,268</u></u>

**MENDOCINO COUNTY FAIR AND APPLE SHOW
BOONEVILLE, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	257,384	169,746
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(2,092)	9,216
Increase (Decrease) in Deferred Income	(21,706)	3,947
Increase (Decrease) in Accounts Payable	(459)	70
Increase (Decrease) in Compensated Absence Liability	(2,456)	7,421
Increase (Decrease) in Guaranteed Deposits	-	(1,061)
Total Adjustments	<u>(26,712)</u>	<u>19,593</u>
Net Cash Provided (Used) by Operating Activities	<u>230,672</u>	<u>189,339</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	(842)	61,764
(Increase) Decrease in Leaseholds & Improvements, Net	51,414	(210,128)
(Increase) Decrease in Equipment, Net	<u>2,210</u>	<u>2,210</u>
Net Cash Provided (Used) by Investing Activities	<u>52,782</u>	<u>(146,154)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	283,454	43,185
Cash at Beginning of Year	260,268	217,083
CASH AT END OF YEAR	<u><u>543,722</u></u>	<u><u>260,268</u></u>

**MENDOCINO COUNTY FAIR AND APPLE SHOW ASSOCIATION
BOONVILLE, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Mendocino County Fair and Apple Show (Fair), is a DBA for the California non-profit cooperative corporation, Anderson Valley Apple Show and Fair that was incorporated on November 1, 1926. The Fair holds an annual county fair and maintains the grounds for other uses during the year.

On July 18, 2006, the Fair entered into an agreement with the County of Mendocino to hold and conduct an annual fair on the grounds owned by the County on dates selected and designated by the Board of Supervisors. The County will provide insurance coverage with a minimum coverage of five million (\$5,000,000) combined bodily injury and property damage liability. The terms of the agreement is five (5) years ending December 31, 2011, unless terminated sooner by written notice by either party. Notice must be given prior to the first day of the next year.

The State of California allocates funds annually to the Fair to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the Fair conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The Fair's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The Fair's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America

requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – No provision is made for income taxes. The Fair is a non-profit, tax-exempt organization under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 2370(d). All programs operated by the Fair are exempt from income taxes.

Cash and Cash Equivalents - The Fair's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the Fair approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the Fair is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax on all of the Fair’s sales of merchandise. The Fair collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The Fair’s accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2

NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, (“GASB Statement No. 48”). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 **CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the Mendocino County Fair and Apple Show as of December 31:

	2008	2007
Petty Cash	\$ 20	\$ 20
Cash in Bank - Operating	309,145	62,776
Cash in Bank - Premium	3,870	0
Cash in Bank – Time Deposit	230,687	197,472
Total Cash and Cash Equivalents	<u>\$ 543,722</u>	<u>\$ 260,268</u>

NOTE 4 **ACCOUNTS RECEIVABLE**

The Mendocino County Fair and Apple Show is required to record an allowance for doubtful accounts based on estimates of collectability.

	2008	2007
Accounts Receivable	\$ 2,167	\$ 10,752
Allowance for Doubtful Accounts	<u>(0)</u>	<u>(10,677)</u>
Accounts Receivable - Net	<u>\$ 2,167</u>	<u>\$ 75</u>

NOTE 5 **PROPERTY AND EQUIPMENT**

Leasehold Improvements and equipment at December 31, 2008 and 2007 consist of the following:

	2008	2007
Leasehold Improvements	\$ 2,375,884	\$ 2,375,884
Less: Accumulated Depreciation	<u>(1,531,420)</u>	<u>(1,480,007)</u>
Leasehold Improvements - Net	<u>\$ 844,464</u>	<u>\$ 895,878</u>
Equipment	\$ 80,427	\$ 80,427
Less: Accumulated Depreciation	<u>(78,217)</u>	<u>(76,007)</u>
Equipment - Net	<u>\$ 2,210</u>	<u>\$ 4,420</u>

NOTE 6 **RETIREMENT PLAN**

The Mendocino County Retirement Association is a multiple employer defined benefit pension plan serving the employees of the County of Mendocino and two special districts. The Association was established under the County Employees Retirement Act of 1937, as amended. The plan is totally controlled and governed by a nine-member retirement board and is

available to essentially all full-time employees of the County and certain special districts. Members of the board are appointed as follows; four members are appointed by the Board of Supervisors, two members are elected by general county employees, one member is elected by county retirees, and one member is the County Treasurer who is an ex-officio board member and administrator of the retirement system. Employees of the County and the special districts, as well as the County, contribute to the plan.

NOTE 7 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

NOTE 8 **LITIGATION**

The Mendocino County Fair and Apple Show is subject to various claims and legal actions relating to a range of matters that are incidental to the conduct of its operations, the Mendocino County Fair and Apple Show's management believes none of which will have a material effect on its financial position or results of operations.

**MENDOCINO COUNTY FAIR AND APPLE SHOW
BOONVILLE, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, Mendocino County Fair Board of Directors
1	Chief Executive Officer, Mendocino County Fair
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



MENDOCINO COUNTY FAIR AND APPLE SHOW
BOONVILLE, CALIFORNIA

MANAGEMENT REPORT #09-057

YEAR ENDED DECEMBER 31, 2008

MENDOCINO COUNTY FAIR AND APPLE SHOW
BOONVILLE, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Alicia Lauron, CPA

Audit Chief
Assistant Audit Chief
Audit Manager

MANAGEMENT REPORT NUMBER
#09-057

TABLE OF CONTENTS

	<u>PAGE</u>
MANAGEMENT LETTER.....	1
REPORTABLE CONDITIONS	3
Courtesy Passes Limitation	3
Accounting for Deferred Income	3
NON-REPORTABLE CONDITIONS	4
Cash Controls	4
Accounting for Nonresident Entertainers.....	4
COUNTY FAIR ASSOCIATION’S RESPONSE	5
CDFA EVALUATION OF RESPONSE.....	7
DISPOSITION OF AUDIT RESULTS	8
REPORT DISTRIBUTION	9



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Wayne Hiatt, President
Board of Directors
Mendocino County Fair and Apple Show
P.O. Box 458
14400 Highway 128
Boonville, California 95415

In planning and performing our audit of the financial statements of the Mendocino County Fair and Apple Show, Boonville, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Mendocino County Fair and Apple Show County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the Mendocino County Fair and Apple Show's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the Mendocino County Fair and Apple Show's assets. The system of internal control should provide the Board of



Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the Mendocino County Fair and Apple Show in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The Mendocino County Fair and Apple Show's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the Mendocino County Fair and Apple Show's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the Mendocino County Fair and Apple Show and compliance with state laws and regulations, we identified two areas with reportable conditions that are considered weaknesses in the Fair's operations: courtesy passes limitation, and accounting for deferred income. We have provided two recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the Mendocino County Fair and Apple Show's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

COURTESY PASSES LIMITATION

The Fair exceeded the maximum allowable rate of courtesy admission passes. The California Food and Agricultural Code Section 3026 states, "The percentage of courtesy pass admissions to any state, county, district, or citrus fruit fair shall not exceed 4 percent of the gross paid admission to the fair in the preceding calendar year." Based on a review of the courtesy pass admissions, we noted that courtesy pass admissions were 5.8% of the preceding year's gross paid admissions, well above the 4% limitation. Furthermore, the Fair did not perform a physical inventory of the unused tickets and could not provide documentation to show how they arrived at the figures reflected on the Statement of Operations. The Fair needs to place more emphasis on the importance of public perception and public trust when issuing courtesy passes. It is extremely critical during this time of declining State subsidies, limited resources and budgetary constraints.

Recommendation

- 1. The Fair should review and improve its policies and procedures for the issuance of courtesy passes to ensure the 4% limitation specified within the Food and Agriculture Code is not exceeded. The Fair has the ultimate responsibility to the public to demonstrate compliance with all state rules and regulations over passes in order to prevent the perception of an inappropriate use of funds.*

ACCOUNTING FOR DEFERRED INCOME

The Fair could not provide details to support the prior year deferred income balance of \$21,889 in the general ledger. Consequently, the Fair did not reconcile and adjust Account #228, Deferred Income, prior to closing its accounting records and preparing the year-end financial statements. Our audit noted the deferred income account consisted primarily of prior year unspent millennium flex fund. Since the Division of Fairs & Expositions (F&E) has placed no spending restrictions on flex capital in 2008, the Fair should recognized the revenue and adjust Account #228, Deferred Income, accordingly. Therefore, the CDFA will make an adjustment to the financial statements at December 31, 2008 to correctly report the related amount for the Fair's deferred income account. This adjustment presents the Fair's financial condition more accurately at year-end.

Recommendation

- 2. The Fair should make the necessary adjusting journal entry to ensure Account #228, Deferred Income, is fairly stated within its general ledger. In addition, the Fair should annually reconcile the Deferred Income account to source documents prior to closing its accounting records and preparing the year-end financial statements.*

NON-REPORTABLE CONDITIONS

CASH CONTROLS

The Fair did not comply with the State Administrative Manual (SAM) Section 8032.4 which requires that whenever coin and currency to be deposited exceeds \$3,000 and an armored car service is either not available or is excessively expensive, two agency employees should be assigned to deliver the deposit jointly or two or more deposits may be made to reduce the cash transported at one time. During fair-time, we noted that deposits over \$3,000 in currency were deposited by one employee. The Fair exposed itself to loss by allowing a single employee to transport more than \$3,000 in coin and currency at one time. Dividing the cash or having two employees deliver the money provides safety to employees and helps maintain the integrity of the employee.

Recommendation

The Fair should develop procedures that comply with SAM Section 8032.4 for whenever a deposit exceeds \$3,000 in cash and currency. Two agency employees should be assigned or two or more deposits should be made in order to provide safety and help maintain the integrity of employees.

ACCOUNTING FOR NONRESIDENT ENTERTAINERS

The Fair did not withhold 7% of the amount paid to nonresident individuals as required by the Franchise Tax Board (FTB). The FTB requires withholding of income or franchise tax on payments of California source income made to nonresidents of California unless the nonresident individual presents Form 590, Withholding Exemption Certificate, to the withholding agent. We noted three instances where the Fair disbursed the full amount to nonresident entertainers without maintaining FTB Form 590.

Recommendation

The Fair should ensure that 7% is withheld from payments to nonresident individuals without Form 590 on file per the FTB requirements.

COUNTY FAIR ASSOCIATION'S RESPONSE

Mendocino County Fair and Apple Show

BOONVILLE, CALIFORNIA 95415

October 28, 2009

C.D.F.A. Audit Office
Ron Shackelford, Chief Audit Office
1220 N. Street, Room 344
Sacramento, CA 95814

Dear Ron,

The purpose of this letter is our written response to the C.D.F.A. Audit Report #09-057.

The two (2) areas of reportable conditions identified by your staff (Alicia Lauron, CPA) and our response on how the recommendations will be implemented are as follows.

Courtesy Passes Limitation

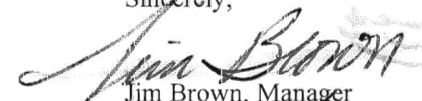
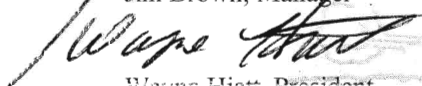
1) In 2009 we have a log for all passes handed out and have accounted for all used tickets. We will continue to use log sheets to stay in compliance.

Accounting for Deferred Income

2) We are making the necessary journal entries to Account #228, Deferred Income, so it is fairly stated in the General Ledger.

We will be more diligent when we annually reconcile Deferred Income at years end.

Sincerely,


Jim Brown, Manager

Wayne Hiatt, President

BOARD OF DIRECTORS

WAYNE HIATT
PRESIDENT

CRAIG TITUS
VICE-PRESIDENT

EVA JOHNSON
TREASURER

JIM BROWN
SECRETARY MANAGER

BILL HOLCOMB

LINDSEY CLOW

FRANK WYANT

MORGAN BAYNHAM

W F "JIM" CLOW HONORARY DIRECTOR

C DFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the Mendocino County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between July 20, 2009 and July 31, 2009. My staff met with management on July 31, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

July 31, 2009

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, Mendocino County Fair Board of Directors
1	Chief Executive Officer, Mendocino County Fair
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office